

# **FRANCIS MARION UNIVERSITY**

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## **Independent Auditors' Report**

**Financial Statements and Schedules  
For the Year Ended June 30, 2014**

# FRANCIS MARION UNIVERSITY

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Independent Auditors' Report

To the Honorable Nikki R. Haley,  
Governor of the State of South Carolina  
And the Board of Trustees of  
Francis Marion University  
Florence, South Carolina

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit (Francis Marion University Development Foundation) of Francis Marion University, a discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents. We did not audit the financial statements of Francis Marion University Education Foundation (a discretely presented component unit). The Francis Marion University Education Foundation reflects 100% of total assets, 100% of net assets, and 100% of total revenues of the discretely presented component unit.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Francis Marion University Education Foundation, which represent 100% of total assets, 100% of net assets, and 100% of total revenue of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Francis Marion University Education Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Francis Marion University Education Foundation and Francis Marion University Development Foundation were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component units of Francis Marion University as of June 30, 2014, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As described in Note 1 to the financial statements, in 2014, the University adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

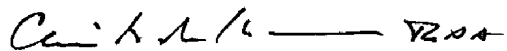
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Francis Marion University's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2014, on our consideration of Francis Marion University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Gaffney, SC  
September 12, 2014

# FRANCIS MARION UNIVERSITY

## Management's Discussion and Analysis

### ***Overview of the Financial Statements and Financial Analysis***

The following discussion and analysis provides an overview of the financial position and activities of Francis Marion University for the year ended June 30, 2014 with selected comparative information for the year ended June 30, 2013. This discussion is presented along with financial statements and related footnote disclosures of the University and its component units. The discussion and analysis is limited to the University and its focus is on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and footnotes. Separately issued financial statements of the component units are available from management of the component units. The report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

### ***Statement of Net Position***

The Statement of Net Position presents the assets, liabilities, and net position of the University as of the end of the fiscal year. The Statement of Net Position is a point of time financial statement and its purpose is to present to the readers of the financial

statements a fiscal snapshot of Francis Marion University. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and nets position (assets minus liabilities). Current assets are those which are reasonably expected to be realized in cash or sold or consumed within one year. Current liabilities are obligations whose liquidation is expected to require the use of current assets.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

Net position is divided into three major categories. The first category, net investment in capital assets, provides the equity in property, plant, and equipment owned by the University. The next category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the University.

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## Condensed Statement of Net Position

	2014	2013	Increase/ (Decrease)	Percent Change
<b>Assets:</b>				
Current assets	\$ 13,798,529	\$ 11,829,527	\$ 1,969,002	16.64%
Capital assets, net of accumulated depreciation	69,510,292	72,504,558	(2,994,266)	(4.13%)
Other noncurrent assets	10,973,181	3,061,260	7,911,921	258.45%
<b>Total assets</b>	<b>94,282,002</b>	<b>87,395,345</b>	<b>6,886,657</b>	<b>7.88%</b>
<b>Liabilities:</b>				
Current liabilities	3,818,909	3,368,475	450,434	13.37%
Noncurrent liabilities	11,542,385	11,996,084	(453,699)	(3.78%)
<b>Total liabilities</b>	<b>15,361,294</b>	<b>15,364,559</b>	<b>(3,265)</b>	<b>(0.02%)</b>
<b>Net position:</b>				
Net investment in capital assets	62,070,558	64,739,550	(2,668,992)	(4.12%)
Restricted - nonexpendable	200,000	200,000	-	0.00%
Restricted - expendable	12,185,148	2,115,342	10,069,806	476.04%
Unrestricted	4,465,002	4,975,894	(510,892)	(10.27%)
<b>Total net position</b>	<b>\$ 78,920,708</b>	<b>\$ 72,030,786</b>	<b>\$ 6,889,922</b>	<b>9.57%</b>

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The Statement of Net Position shows an increase in assets and a decrease in liabilities resulting in an overall increase in net position. Significant changes on the Statement of Net Position are as follows:

- Total assets of the University increased by \$6.89 million.
- The increase in current assets is largely due to an increase in net contributions receivable.
- The total liabilities change was insignificant.
- Total net position increased by \$6.89 million. This was due to a contribution pledge for the new Medical and Health Services complex planned for downtown Florence.

### **Statement of Revenues, Expenses and Changes in Net Position**

Changes in total net assets as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the

University, operating and nonoperating, and any other revenue, expenses, gains, and losses received or spent by the University. Operating revenues are those that are earned in exchange for goods or services provided while carrying out the mission of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

The Statement of Revenues, Expenses, and Changes in Net Position is prepared on the accrual basis of accounting. Accrual accounting attempts to record the financial effects of transactions on an entity in the period in which those transactions occur rather than in the period in which cash is received or paid.

Revenues are recognized when services or goods are provided. Expenses are recognized when resources are utilized in order to produce goods or services.

## Condensed Statement of Revenues, Expenses, and Changes in Net Position

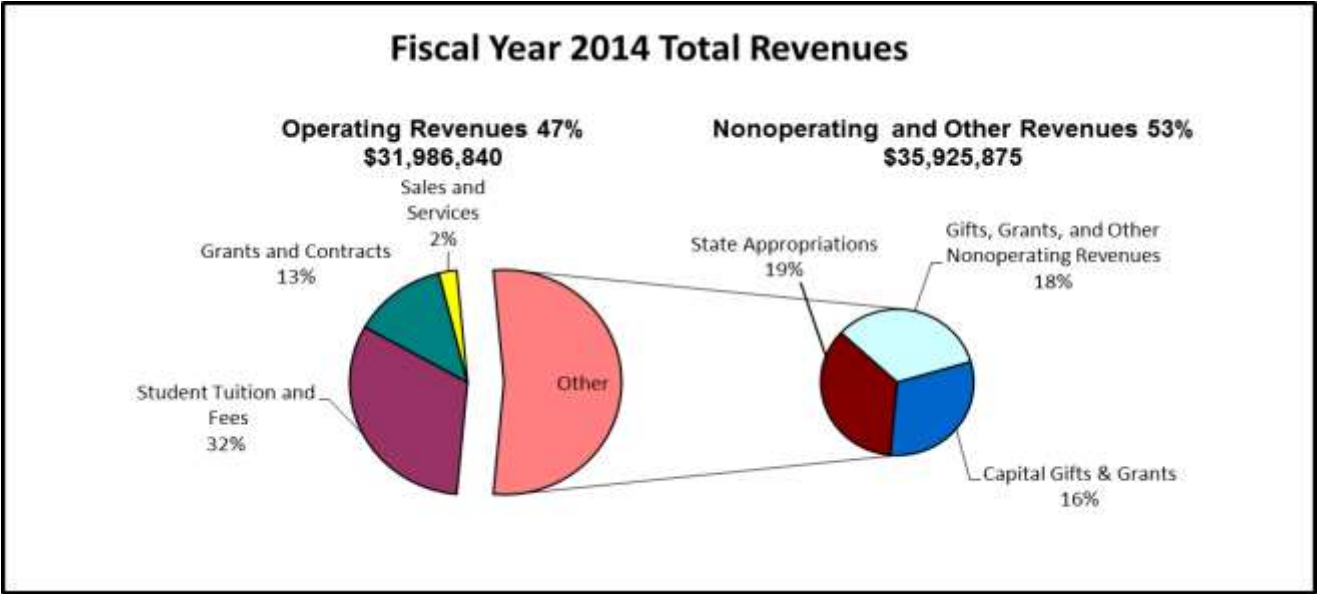
	2014	2013	Increase/ (Decrease)	Percent Change
<b>Revenues:</b>				
Student tuition and fees	\$ 20,550,446	\$ 20,347,023	\$ 203,423	1.00%
Grants and contracts	8,773,307	9,053,827	(280,520)	(3.10%)
Sales and services	1,673,342	1,663,351	9,991	0.60%
Other operating revenues	989,745	996,136	(6,391)	(0.64%)
<b>Total operating revenues</b>	<b>31,986,840</b>	<b>32,060,337</b>	<b>(73,497)</b>	<b>(0.23%)</b>
State appropriations	12,720,987	12,161,995	558,992	4.60%
Grants	9,681,865	9,632,036	49,829	0.52%
Gifts	1,957,460	1,888,789	68,671	3.64%
Investment income (loss)	138,221	15,794	122,427	775.15%
Other nonoperating revenues	300,619	294,127	6,492	2.21%
<b>Total nonoperating revenues</b>	<b>24,799,152</b>	<b>23,992,741</b>	<b>806,411</b>	<b>3.36%</b>
<b>Total revenues</b>	<b>56,785,992</b>	<b>56,053,078</b>	<b>732,914</b>	<b>1.31%</b>
<b>Expenses:</b>				
Compensation and employee benefits	39,852,105	39,428,506	423,599	1.07%
Services and supplies	9,929,469	9,984,264	(54,795)	(0.55%)
Utilities	2,301,295	2,007,510	293,785	14.63%
Depreciation	3,427,130	3,461,150	(34,020)	(0.98%)
Scholarships	5,121,735	5,513,993	(392,258)	(7.11%)
<b>Total operating expenses</b>	<b>60,631,734</b>	<b>60,395,423</b>	<b>236,311</b>	<b>0.39%</b>
Interest expense	391,059	413,319	(22,260)	(5.39%)
<b>Total nonoperating expenses</b>	<b>391,059</b>	<b>413,319</b>	<b>(22,260)</b>	<b>(5.39%)</b>
<b>Total expenses</b>	<b>61,022,793</b>	<b>60,808,742</b>	<b>214,051</b>	<b>0.35%</b>
<b>Income (loss) before other revenues, expenses, gains, losses, and transfers</b>	<b>(4,236,801)</b>	<b>(4,755,664)</b>	<b>518,863</b>	<b>(10.91%)</b>
State capital appropriations	3,744,624	1,743,547	2,001,077	114.77%
Capital gifts	7,382,099	130,989	7,251,110	5535.66%
<b>Increase (decrease) in net position</b>	<b>6,889,922</b>	<b>(2,881,128)</b>	<b>9,771,050</b>	<b>(339.14%)</b>
<b>Net position - beginning of year</b>	<b>72,030,786</b>	<b>74,911,914</b>	<b>(2,881,128)</b>	<b>(3.85%)</b>
<b>Net position - end of year</b>	<b>\$ 78,920,708</b>	<b>\$ 72,030,786</b>	<b>\$ 6,889,922</b>	<b>9.57%</b>

The Statement of Revenues, Expenses and Changes in Net Position reflects an increase in net assets for the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

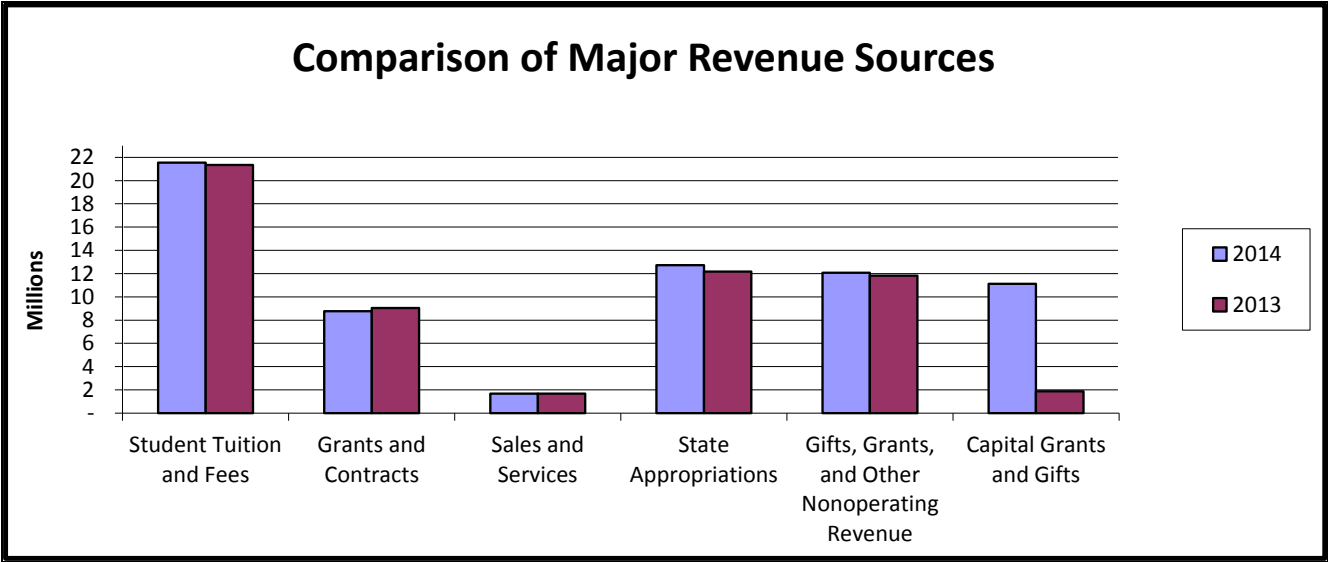
- The University experienced very little change in total Operating Revenues for the year.
- The increase in non-operating revenue of approximately \$806 thousand is primarily due to the increase in state appropriations and in investment income.
- The increase in capital revenues resulted from gifts receivable and State capital appropriations for the Medical and Health Services complex to be built in downtown Florence.



The following graph presents the sources of revenue used to fund the University for the year.

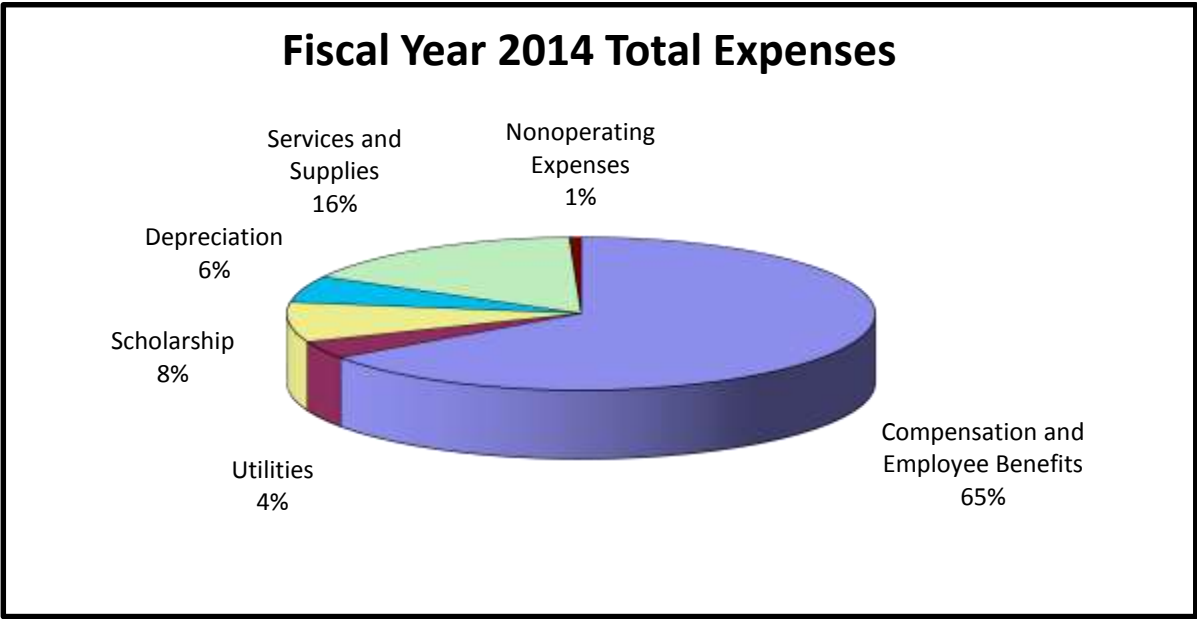


The graph below, comparing 2014 revenue sources to 2013, illustrates the changes in major revenue sources.

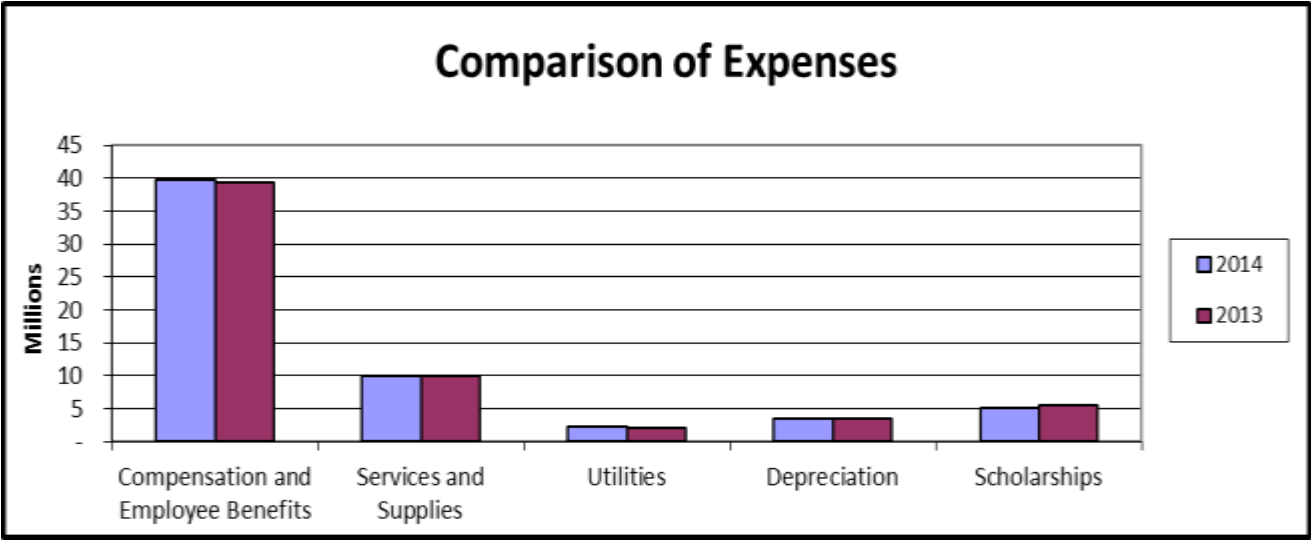


- Total operating expenses have increased very little.
- The largest increase in expenses was in utilities, which is an overall economic trend.

The following graph displays expense categories.



The graph below compares 2014 expenses to 2013 and illustrates the changes in major expense types.



### ***Statement of Cash Flows***

The final statement presented by Francis Marion University is the Statement of Cash Flows. The Statement of Cash Flows gives detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first section presents operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities and displays the cash received and spent for noncapital financing purposes. The third section exhibits cash flows from capital and related financing activities and shows cash used for the acquisition and construction of capital and related items. The fourth part gives the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss displayed on the Statement of Revenues, Expenses, and Changes in Net Position.

### ***Capital Assets and Debt***

Total capital assets net of depreciation for the University is \$69,510,292 at June 30, 2014.

Construction in progress of \$494,068 consists of payments for architect fees for a building for the schools of education and business. Please see note 6 of the financial statements for further details.

Debt on capital assets is \$7,439,734. Details of the bonds and capital leases are available in notes 10, 11, and 12.

### ***Economic Outlook***

As one of the state-supported universities of South Carolina, Francis Marion receives appropriations from the state and those appropriations were increased slightly this year and enrollment has been sufficient. The University's management will continue to monitor economic factors and make adjustments if needed to insure the University's overall financial position is sound.

The University's current financial position is stable and current appropriations and tuition are adequate to fund the operations for the ensuing year. The University does not plan to materially reduce operations or curtail any planned improvements.

**Francis Marion University**  
**Statement of Net Position**  
**June 30, 2014**

**ASSETS**

**Current Assets**

Cash and cash equivalents .....	\$ 8,686,062
Accounts receivable (net of allowance for doubtful accounts \$551,111) .....	1,752,755
Contributions receivable, net .....	2,519,051
Accrued interest receivable .....	14,679
Due from Francis Marion University Education Foundation .....	52,900
Prepaid expenses .....	773,082
<b>Total current assets</b> .....	<b>13,798,529</b>

**Noncurrent Assets**

Restricted cash and cash equivalents .....	6,221,628
Contributions receivable, net .....	2,857,200
Notes receivable - due from Francis Marion University Education Foundation .....	233,970
Perkins loans receivable .....	1,660,383
Capital assets, net of accumulated depreciation .....	69,510,292
<b>Total noncurrent assets</b> .....	<b>80,483,473</b>
<b>Total assets</b> .....	<b>94,282,002</b>

<b>DEFERRED OUTFLOWS OF RESOURCES</b> .....	<b>-</b>
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**LIABILITIES**

**Current Liabilities**

Accounts payable .....	374,939
Accrued payroll and related liabilities .....	265,339
Accrued compensated absences - current portion .....	1,417,847
Accrued interest payable .....	30,730
Due To Francis Marion University Development Foundation .....	212,961
Due To Francis Marion University Education Foundation .....	30,412
Unearned revenues .....	463,604
Capital leases payable - current portion .....	14,959
Notes payable - current portion .....	32,083
Bonds payable - current portion .....	310,000
Deposits held for others .....	170,277
Deposits held for Francis Marion University Development Foundation .....	495,758
<b>Total current liabilities</b> .....	<b>3,818,909</b>

**Noncurrent Liabilities**

Accrued compensated absences .....	835,920
Unearned revenues .....	2,068,869
Capital leases payable .....	19,775
Notes payable .....	13,519
Bonds payable .....	7,095,000
Perkins liability .....	1,509,302
<b>Total noncurrent liabilities</b> .....	<b>11,542,385</b>
<b>Total liabilities</b> .....	<b>15,361,294</b>

<b>DEFERRED INFLOWS OF RESOURCES</b> .....	<b>-</b>
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**NET POSITION**

Net Investment in capitalized assets .....	62,070,558
Restricted for	
Nonexpendable	
Scholarships and fellowships .....	200,000
Expendable	
Scholarships and fellowships .....	94,844
Instructional department uses .....	126,605
Loans .....	463,043
Capital projects .....	11,495,650
Other .....	5,006
Unrestricted .....	4,465,002
<b>Total net position</b> .....	<b>\$ 78,920,708</b>

The accompanying notes are an integral part of the financial statements.

**Francis Marion University**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2014**

**OPERATING REVENUES**

Student tuition and fees (net of scholarship allowances of \$14,236,801) .....	\$ 20,550,446
(of which \$665,563 of revenues are pledged for Athletic Facility Revenue Bonds)	
Federal grants and contracts .....	1,431,401
State grants and contracts .....	7,197,374
Local grants and contracts .....	7,916
Non-governmental grants and contracts .....	136,616
Sales and services of educational and other activities .....	506,659
Sales and services of auxiliary enterprises .....	1,166,683
Other operating revenues .....	989,745
<b>Total operating revenues</b> .....	<u>31,986,840</u>

**OPERATING EXPENSES**

Salaries and wages .....	30,165,501
Benefits .....	9,686,604
Supplies and other services .....	9,929,469
Utilities .....	2,301,295
Scholarships .....	5,121,735
Depreciation .....	3,427,130
<b>Total operating expenses</b> .....	<u>60,631,734</u>
<b>Operating income (loss)</b> .....	<u>(28,644,894)</u>

**NONOPERATING REVENUES (EXPENSES)**

State appropriations .....	12,720,987
Federal grants .....	9,681,865
Gifts .....	1,957,460
Investment income .....	138,221
Interest and other fees on capital asset related debt .....	(391,059)
Other nonoperating revenues (expense) .....	300,619
<b>Net nonoperating revenue</b> .....	<u>24,408,093</u>
<b>Income (loss) before other revenues, expenses, gains, losses, and transfers</b> .....	<u>(4,236,801)</u>
State capital appropriations .....	3,744,624
Capital gifts .....	7,382,099
<b>Increase (decrease) in net position</b> .....	<u>6,889,922</u>

<b>Net position - beginning of year</b> .....	<u>72,030,786</u>
<b>Net position - end of year</b> .....	<u><u>\$ 78,920,708</u></u>

The accompanying notes are an integral part of the financial statements.

**Francis Marion University**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2014**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and fees .....	\$ 20,719,956
Grants and contracts .....	8,568,744
Sales and services of educational and other activities .....	485,710
Sales and services of auxiliary enterprises .....	1,048,264
Receipts for reimbursements .....	3,653,750
Payments to suppliers .....	(13,568,644)
Payments to employees .....	(31,285,501)
Payments for benefits .....	(10,060,368)
Payments for scholarships .....	(5,151,556)
Loans to students .....	(270,925)
Collection of loans .....	222,923
Inflows from Federal direct lending loans .....	25,544,390
Outflows from Federal direct lending loans .....	(25,737,433)
Inflows from agency funds .....	12,149,448
Outflows from agency funds .....	(12,084,781)
Other receipts .....	1,344,958
<b>Net cash (used) by operating activities .....</b>	<b>(24,421,065)</b>

**CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES**

State appropriations .....	12,720,987
Nonoperating grants .....	9,681,865
Gifts .....	1,810,052
<b>Net cash flow provided by noncapital financing activities .....</b>	<b>24,212,904</b>

**CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State capital appropriations .....	4,700,314
Capital grants and gifts received .....	2,500,000
Purchases of capital assets .....	(391,966)
Principal paid on bond payable .....	(295,000)
Principal paid on notes payable .....	(31,543)
Principal paid on capital leases .....	(30,274)
Interest and fees .....	(392,284)
<b>Net cash provided by capital and related financing activities .....</b>	<b>6,059,247</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on investments .....	115,573
<b>Net cash flows provided by investing activities .....</b>	<b>115,573</b>

<b>Net change in cash .....</b>	<b>5,966,659</b>
<b>Cash and cash equivalents - beginning of year .....</b>	<b>8,941,031</b>
<b>Cash and cash equivalents - end of year .....</b>	<b>\$ 14,907,690</b>

The accompanying notes are an integral part of the financial statements.

**Francis Marion University**  
**Statement of Cash Flows (Continued)**  
**For the Year Ended June 30, 2014**

**Reconciliation of net operating revenues (expenses) to net cash provided  
(used) by operating activities:**

Operating (loss) .....	(28,644,894)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:	
Nonoperating revenues .....	308,272
Noncash gifts .....	480,967
Depreciation expense .....	3,427,130
Bad debts .....	181,462
Loan cancellations .....	49,864
Changes in asset and liabilities:	
Receivables net .....	(468,553)
Loans to students .....	(48,002)
Deferred charges and prepayments .....	(60,341)
Accounts payable .....	148,979
Accrued payroll and related liabilities .....	86,540
Deferred revenues and unearned student revenues .....	(74,043)
Perkins liability .....	(20,615)
Deposits held for others .....	118,618
Accrued compensated absences .....	93,551
<b>Net cash (used) by operating activities</b> .....	<b><u>\$ (24,421,065)</u></b>

Noncash capital and related financing activities:

The University disposed of equipment with costs of \$581,990 and accumulated depreciation of \$574,336.  
The University received capital gifts with a cost of \$48,751.

The accompanying notes are an integral part of the financial statements.

**Francis Marion University Education Foundation**  
**Statement of Financial Position**  
**December 31, 2013**

**ASSETS**

Cash and cash equivalents .....	\$ 4,074,087
Investments .....	22,117,240
Contributions receivable, net .....	2,383,647
Other receivables .....	167,188
Prepaid expenses .....	18,193
Assets held in trust by others .....	827,008
Property and equipment, net .....	1,054,508
Other assets .....	1,150,903
Total assets .....	<u>31,792,774</u>

**LIABILITIES**

Accounts payable .....	55,018
Due to Francis Marion University .....	620,718
Funds held for others .....	2,721,110
Note payable - Francis Marion University .....	229,717
Bonds payable .....	979,592
Total liabilities .....	<u>4,606,155</u>

**NET ASSETS**

Unrestricted .....	2,179,720
Temporarily restricted .....	11,806,303
Permanently restricted .....	13,200,596
Total net assets .....	<u>27,186,619</u>
Total liabilities and net assets .....	<u><u>\$ 31,792,774</u></u>

The accompanying notes are an integral part of the financial statements.



**Francis Marion University Education Foundation**  
**Statement of Activities**  
**For the Year Ended December 31, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Gifts and bequests .....	\$ 347,886	\$ 4,411,280	\$ 230,660	\$ 4,989,826
Trust income .....	-	36,000	-	36,000
Investment income .....	14,756	471,585	-	486,341
Management fees .....	-	40,016	-	40,016
Rent and other income .....	49,995	66,661	-	116,656
Net unrealized and realized gains (losses) on investments .....	77,856	2,523,469	-	2,601,325
Net assets released from program restrictions .....	4,513,143	(4,513,143)	-	-
<b>Total revenues, gains and other support ....</b>	<u>5,003,636</u>	<u>3,035,868</u>	<u>230,660</u>	<u>8,270,164</u>
<b>EXPENSES</b>				
Program Expenses .....	4,856,836			4,856,836
General and administrative .....	419,354	-	-	419,354
Fundraising .....	29,149	-	-	29,149
<b>Total expenses .....</b>	<u>5,305,339</u>	<u>-</u>	<u>-</u>	<u>5,305,339</u>
<b>Change in net assets .....</b>	(301,703)	3,035,868	230,660	2,964,825
<b>Net assets, beginning of year .....</b>	<u>2,481,423</u>	<u>8,770,435</u>	<u>12,969,936</u>	<u>24,221,794</u>
<b>Net assets, end of year .....</b>	<u><u>\$ 2,179,720</u></u>	<u><u>\$ 11,806,303</u></u>	<u><u>\$ 13,200,596</u></u>	<u><u>\$ 27,186,619</u></u>

The accompanying notes are an integral part of the financial statements.

**Francis Marion University Development Foundation**  
**Statement of Financial Position**  
**June 30, 2014**

**ASSETS**

**Current Assets**

Cash and cash equivalents .....	\$ 4,927,758
Due from Francis Marion University .....	212,961
Held by Francis Marion University for the Foundation .....	495,758
Prepaid rent .....	108,412
Other prepaid expenses .....	35,723
Deposit .....	75
Unamortized bond issue costs .....	67,329
<b>Total current assets</b> .....	<u>5,848,016</u>

**Noncurrent Assets**

Restricted Cash and cash equivalents .....	4,442,620
Accrued interest receivable .....	196
Land and building investment .....	151,857
Property and equipment .....	14,732,243
Prepaid rent .....	2,068,869
Other prepaid rent .....	29,472
Unamortized bond issue costs .....	1,368,488
<b>Total noncurrent assets</b> .....	<u>22,793,745</u>
<b>Total assets</b> .....	<u>28,641,761</u>

**LIABILITIES**

**Current Liabilities**

Accounts payable .....	7
Deferred revenue .....	131,500
Accrued interest payable .....	447,873
Bonds payable - current portion .....	641,324
<b>Total current liabilities</b> .....	<u>1,220,704</u>

**Noncurrent Liabilities**

Bonds payable including premium, net of current portion .....	22,621,994
<b>Total noncurrent liabilities</b> .....	<u>22,621,994</u>
<b>Total liabilities</b> .....	<u>23,842,698</u>

**NET ASSETS**

Unrestricted .....	4,799,063
<b>Total liabilities and net assets</b> .....	<u>\$ 28,641,761</u>

The accompanying notes are an integral part of the financial statements.

**Francis Marion University Development Foundation**  
**Statement of Activities**  
**For the Year Ended June 30, 2014**

**REVENUES**

Rents - student housing .....	\$ 6,266,129
Rents - other .....	11,000
Interest, net of trustee fees .....	3,067
<b>Total revenue</b> .....	<u>6,280,196</u>

**EXPENSES**

Program services	
Housing services .....	4,721,323
University support .....	647,097
Other facilities operations .....	23,807
Total program services .....	<u>5,392,227</u>
General and administrative .....	66,138
<b>Total expenses</b> .....	<u>5,458,365</u>

<b>Change in net assets</b> .....	821,831
<b>Net assets, beginning of year</b> .....	<u>3,977,232</u>
<b>Net assets, end of year</b> .....	<u><u>\$ 4,799,063</u></u>

The accompanying notes are an integral part of the financial statements.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations***

Francis Marion University (the University) is a State-supported coeducational institution of higher education. The University's primary purpose is to provide academic instruction to students and conduct research and other activities that advance fundamental knowledge.

The University is a discretely presented component unit in the Comprehensive Annual Financial Report of the State of South Carolina.

***Reporting Entity***

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* provides additional guidance concerning the inclusion of related party financial information as a part of the reporting entity. The accompanying financial statements present only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component units.

The Francis Marion University Education Foundation (the Education Foundation) is a legally separate, tax-exempt component unit of the University. The Education Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Education Foundation, the majority of resources, or income thereon, that the Education Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Education Foundation can only be used by, or for the benefit of, the University, the Education Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. Copies of the

separately issued financial statements of the Education Foundation can be obtained by sending a request to Francis Marion University Education Foundation, Post Office Box 100547, Florence, South Carolina 29501.

The Francis Marion University Development Foundation (the Development Foundation) is a legally separate, tax-exempt component unit of the University. It is operated for the benefit of the University specifically to acquire, construct, finance, pledge, maintain, operate, manage and lease housing facilities for students and faculty of the University and other real property for the benefit and support of the University. The financial statements include the assets, liabilities and activities of Francis Marion University Student Housing, LLC of which the Development Foundation is the sole member. Copies of the separately issued financial statements of the Development Foundation can be obtained by sending a request to Francis Marion University Development Foundation, Post Office Box 100547, Florence, South Carolina 29501.

***Basis of Accounting***

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The University has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

In fiscal year 2014, the University implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflow of resources. Requirements of this Statement are

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

effective for financial statements whose fiscal year begins after December 15, 2012.

The Education Foundation and the Development Foundation are private nonprofit organizations that reports under FASB, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations' financial information in the University's financial reporting entity for these differences.

***Cash and Cash Equivalents***

For purposes of the financial statements, the University and its component units consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through South Carolina State Treasurer's Office are considered cash equivalents.

***Investments***

The University accounts for its investments at market value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net position.

***Accounts Receivable***

Accounts receivable consists of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated doubtful accounts.

***Contributions Receivable***

Contributions receivable consist of unconditional promises to give. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Contributions receivable are recorded net of estimated uncollectible amounts.

***Prepaid Expenses***

Expenditures for goods and services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of

prepaid insurance, prepaid postage, prepaid travel and advance payments for maintenance and service agreements.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful lives of existing buildings are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life of two years or greater and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements, 3 years for computer software, and 2 to 25 years for machinery, equipment, and vehicles. The University adopted, effective for the fiscal year ended June 30, 2012, a monthly depreciation convention for the straight-line method consistent with the policy of the State of South Carolina.

***Deferred Revenues and Deposits***

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but relate to the subsequent accounting period. Deferred revenues also include deferred rental income and amounts received from grant and contract sponsors that have not yet been earned.

***Accrued Compensated Absences***

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net position, and as components of salaries and wages and benefits expenses in the statement of revenues, expenses, and changes in net position.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

***Perkins Loans Receivable and Related Liability***

The loans receivable on the balance sheet are due to the University under the Perkins Loan Program. The federal government funds this program with the University providing a required match. The amount reported as Perkins liability is the amount of cumulative federal contributions and a prorata share of net earnings on the loans under this program that would have to be repaid to the federal government if the University ceases to participate in the program. The University recognizes as revenue and expenses only the portion attributable to its matching contribution.

***Net Position***

The University's net position is comprised of the following:

*Net investment in capitalized assets:* This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

*Restricted net assets - expendable:* Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Restricted net assets - nonexpendable:* Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*Unrestricted net assets:* Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources may be used at the discretion of the governing board to meet current expenses. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

The University policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

***Income Taxes***

The University, as a political subdivision of the State of South Carolina, is excluded from federal income taxes under Section 115(a) of the Internal Revenue Code, as amended.

***Classification of Revenues***

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

*Operating revenues:* Operating revenues generally result from exchange transactions to provide goods or services related to the University's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake.

*Nonoperating revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

***Sales and Services of Educational and Other Activities***

Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from community groups using

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

campus facilities for summer camps and other activities.

***Sales and Services of Auxiliary Enterprises and Internal Service Activities***

Auxiliary enterprise revenues primarily represent revenues generated by the bookstore, dining services, and housing. Transactions between the University and its auxiliary enterprise activities and its internal service department have been eliminated.

***Scholarship Discounts and Allowances***

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are

used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**NOTE 2 – CASH AND CASH EQUIVALENTS, DEPOSITS, AND INVESTMENTS**

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. The following schedule reconciles deposits and investments within the footnotes to the statement of net position amounts:

<u>Statement of Net Position</u>		<u>Footnotes</u>	
Cash and cash equivalents (current)	\$ 8,686,062	Cash on hand	\$ 26,525
Restricted cash and cash equivalents (noncurrent):		Deposits held by State Treasurer	14,881,165
Grants and gifts	3,467,768		
Perkins loan funds	251,689		
Capital projects	2,502,171		
Total	<u>\$ 14,907,690</u>	Total	<u>\$ 14,907,690</u>

***Deposits Held by State Treasurer***

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 3 – RECEIVABLES**

***Accounts Receivable***

The University accounts receivable as of June 30, 2014, are summarized as follows:

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Current:	
Student tuition and fees	\$ 913,395
Allowance for doubtful accounts	(551,111)
Federal grants and contracts	469,784
State and local grants and contracts	124,657
Sales and services of education departments	43,796
Auxiliary services	132,274
Capital reserve funds	331,569
Other	288,391
Net accounts receivable	<u>\$ 1,752,755</u>

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The amounts shown above are reported at gross with all discounts and allowances disclosed.

The allowance for doubtful accounts for student accounts receivable is established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2014, the allowance for uncollectible student accounts is valued at \$551,111.

The University is reimbursed for contractual services provided to outsourced auxiliary contractors. Reimbursements due for these services at June 30,

2014, are \$21,732 and are included in accounts receivable – auxiliary services.

***Contributions Receivable***

Contributions receivable are comprised of pledges for gifts to support the University. Contributions receivable are accounted for at their estimated net realizable value or the present value of long-term pledges.

The University contributions receivable as of June 30, 2014, are summarized as follows:

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Current:	
Gift Pledges Outstanding	\$ 2,651,193
Less discounts to net present value	132,142
Net contributions receivable	<u>\$ 2,519,051</u>
Noncurrent:	
Gift Pledges Outstanding	\$ 2,946,400
Less discounts to net present value	89,200
Net contributions receivable	<u>\$ 2,857,200</u>

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**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 4 – LOANS RECEIVABLE**

Student loans made through the federal Perkins loan program comprise substantially all of the loans receivable as of June 30, 2014. The Perkins loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the University determines that loans are uncollectible, the loans are written off and assigned to the US Department of Education.

**NOTE 5 – CAPITAL ASSETS**

Capital assets activity of the University for the year ended June 30, 2014, is summarized as follows:

	Beginning Balance July 1, 2013	Increases	Decreases	Ending Balance June 30, 2014
Capital assets not being depreciated:				
Land and improvements	\$ 3,777,128	\$ -	\$ -	\$ 3,777,128
Construction in progress	494,068	-	-	494,068
Art work and historical treasures	193,908	-	-	193,908
Total capital assets not being depreciated	4,465,104	-	-	4,465,104
Other capital assets:				
Land improvements	10,449,109	-	-	10,449,109
Buildings and improvements	107,658,313	-	109,365	107,548,948
Computer software	131,895	-	-	131,895
Machinery, equipment, and other	4,155,553	440,517	472,625	4,123,445
Vehicles	431,063	-	-	431,063
Total other capital assets at historical cost	122,825,933	440,517	581,990	122,684,460
Less accumulated depreciation for:				
Land improvements	3,337,083	564,962	-	3,902,045
Buildings and improvements	47,968,918	2,525,205	109,365	50,384,758
Computer software	131,895	-	-	131,895
Machinery, equipment, and other	3,065,359	287,812	464,971	2,888,200
Vehicles	283,223	49,151	-	332,374
Total accumulated depreciation	54,786,478	3,427,130	574,336	57,639,272
Other capital assets, net of accumulated depreciation	68,039,455	(2,986,613)	7,654	65,045,188
Capital assets, net of accumulated depreciation	\$ 72,504,559	\$ (2,986,613)	\$ 7,654	\$ 69,510,292

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 6 – PENSION PLAN**

***South Carolina Retirement System***

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides a life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental death benefits to eligible employees and retired members.

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is

the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits.

An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

retirement benefits which will include any benefit adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

Effective July 1, 2013, employees participating in the SCRS were required to contribute 7.5% of all

earnable compensation. The employer contribution rate for SCRS was 15.52%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death benefit program and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The University's actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2014, 2013, and 2012 were:

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Fiscal Year Ended	Retirement		Incidental Death	
	Rate	Contribution	Rate	Contribution
2014	10.450%	\$ 1,937,096	0.15%	\$ 27,805
2013	10.450%	\$ 1,969,376	0.15%	\$ 28,270
2012	9.385%	\$ 1,740,420	0.15%	\$ 27,817

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***Police Officers Retirement System***

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement plan. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides for lifetime monthly annuity benefits as well as disability, survivor benefits and incidental death benefits to eligible employees and retirees. In addition, participating employers in the PORS may elect to contribute to the accidental death program which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula

for PORS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2013, employees participating in the PORS were required to contribute 7.84% of all earnable compensation. The employer contribution rate for PORS was 17.76%. Included in the total PORS employer contribution rate is a base retirement contribution of 12.44%, .20% for the incidental death program, .20% for the accidental death program, and a 4.92% surcharge that will fund retiree health and

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dental insurance coverage. The University's actual retirement, incidental death program and accidental

death program contributions to the PORS for the years ended June 30, 2014, 2013, and 2012 were:

Fiscal Year Ended	Retirement		Incidental Death		Accidental Death	
	Rate	Contribution	Rate	Contribution	Rate	Contribution
2014	12.440%	\$ 71,134	0.20%	\$ 1,144	0.20%	\$ 1,144
2013	11.900%	\$ 68,842	0.20%	\$ 1,157	0.20%	\$ 1,157
2012	11.363%	\$ 62,790	0.20%	\$ 1,105	0.20%	\$ 1,105

**Optional Retirement System**

As an alternative to membership in the SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program (ORP), a defined contribution retirement plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for the State ORP plan other than for the employer's payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.92% from the employer in fiscal year 2014. Of the 10.60% employer retirement contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% retirement contribution and .15% incidental death benefit program contribution amounts are remitted to SCRS.

For fiscal year 2014, total contributions requirements to the ORP were \$1,132,241 (excluding the surcharge) from the University as employer and \$812,007 from its employees as plan members.

The amounts paid by the University for pension, incidental death program, and accidental death benefit program contributions are reported as employer contribution expenditures within the

applicable functional expenditure categories to which the related salaries are charged.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

While the surcharge to fund retiree health and dental insurance benefits is collected by the Retirement Benefits Division of PEBA, it is remitted to the Insurance Benefits Division of PEBA, which is responsible for administration of retiree health and dental insurance benefits and establishment of the applicable retiree insurance surcharge rate.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

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**NOTE 7 – POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS**

***Plan Description***

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The University contributes to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA).

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

***Funding Policies***

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.92% of annual covered payroll for 2014 and 4.55% of annual covered payroll for 2013. The IB sets the employer contribution rate based on a pay-as-you-go basis. The University paid \$1,472,828 and \$1,356,104 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2014 and 2013,

respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2014 and 2013. The University recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of \$18,264 and \$18,164 for the years ended June 30, 2014 and 2013, respectively.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

A copy of the complete financial statements for the benefit plans and the trust funds can be obtained from PEBA Retirement Benefits and Insurance Benefits, 202 Arbor Lake Drive, Suite 360, Columbia, SC 29223.

**NOTE 8 – CONTINGENCIES, LITIGATION, AND COMMITMENTS**

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, there are no material claims or lawsuits against the University that are not covered by insurance or whose settlement would materially affect the University's financial position.

The University participates in certain federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

The University had outstanding commitments under construction contracts of \$149,093 at June 30, 2014, of which \$141,830 will be capitalized. The University anticipates funding these projects out of state capital reserve funds and state capital improvement bond

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proceeds. The State has issued capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has

\$255,932 of authorized undrawn state capital improvement bonds.

## **NOTE 9 – UNEARNED REVENUES**

Unearned revenues as of June 30, 2014, are summarized as follows:

---

Current:	
Student tuition and fees	\$ 249,909
Grants and contracts	105,283
Housing rentals	108,412
Net unearned revenues	<u>\$ 463,604</u>
Noncurrent:	
Housing rental	<u>\$ 2,068,869</u>
Net unearned revenues	<u>\$ 2,068,869</u>

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## **NOTE 10 – LEASE OBLIGATIONS**

Future commitments for leases as of June 30, 2014, are as follows:

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	Year Ending June 30,	Capital Lease Payments
	2015	\$ 17,732
	2016	17,732
	2017	4,433
Total minimum lease payment		<u>39,897</u>
Less: Interest		2,208
Executory and other costs		2,955
Principal outstanding		<u>\$ 34,734</u>

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### **Capital Leases**

Capital leases for various equipment are payable in monthly installments from current resources. Certain

capital leases provide for renewal and/or purchase options. The cost of assets held under capital leases totaled \$113,479 as of June 30, 2014. Accumulated

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amortization of the leases on this equipment totaled \$81,348 at June 30, 2014, resulting in a book value of \$32,131. Current year amortization expense on capital leases was \$22,169 and is included in depreciation expense. Interest expense on capital leases was \$2,467. The capital leases are with external parties.

**Operating Leases**

During fiscal year 2014, the University paid \$60,882 for copier leases on a cost per copy basis to external parties. The University also paid \$28,754 on equipment under cancelable operating leases, all of which was with other State agencies.

**Capital Leases – Lessor**

During the 2006 fiscal year, the University received a donation of a building and agreed to lease the property back to the donor for 99 years at \$1 per year. No assets or liabilities related to this transaction are reflected in the University's financial statements due to immateriality of the amounts involved.

**NOTE 11 – BONDS AND NOTES PAYABLE**

**Bonds Payable**

Bonds payable consisted of the following at June 30, 2014.

	Interest Rates	Maturity Dates	Balance
Athletic Facilities Revenue Bonds, Series 2009A	4.98%	2015 - 2029	\$ 7,405,000

In 2010, the University issued Athletic Facilities Revenue Bonds, Series 2009A, in the amount of \$8,500,000. The proceeds of these bonds were used to construct an athletic complex. The bonds are secured by revenue derived from special student fees.

In 2008, the University defeased series 2005C State Institution Bonds by placing excess debt service on deposit to pay the bonds as they mature. The account assets and the liability for these defeased bonds are not included in the University's financial statements. At June 30, 2014, \$150,000 of bonds outstanding are considered defeased.

The scheduled maturities of the Athletic Facilities Revenue bonds are as follows:

Year Ended June 30,	Total Principal	Interest	Total Payments
2015	310,000	361,050	671,050
2016	325,000	345,239	670,239
2017	345,000	328,556	673,556
2018	360,000	311,001	671,001
2019	380,000	292,575	672,575
2020-2024	2,205,000	1,151,501	3,356,501
2025-2029	2,825,000	529,001	3,354,001
2030	655,000	16,310	671,310
Totals	<u>\$ 7,405,000</u>	<u>\$ 3,335,233</u>	<u>\$ 10,740,233</u>

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**Notes Payable**

The University's notes payable consists of the following at June 30, 2014:

	Interest Rate	Maturity Date	Balance
State Energy Plan - ARRA agreement to replace HVAC system in the Smith University Center	Zero Percent	November, 2015	\$ 27,038
ConserFund Loan agreement for upgrades to the chiller plant	3.00%	November, 2014	\$ 18,564

The scheduled maturities of the notes payable are as follows:

Year Ended June 30,	Total Principal	Interest	Total Payments
2015	32,083	557	32,640
2016	13,519	-	13,519
Totals	<u>\$ 45,602</u>	<u>\$ 557</u>	<u>\$ 46,159</u>

**NOTE 12 – LONG-TERM LIABILITIES**

Long-term liability activity of the University for the year ended June 30, 2014, is as follows:

	June 30, 2013	Additions	Reductions	June 30, 2014	Due within One year
Bonds, note, and capital leases payable:					
Bonds payable	\$ 7,700,000	\$ -	\$ 295,000	\$ 7,405,000	\$ 310,000
Notes payable	77,145	-	31,543	45,602	32,083
Capital leases payable	65,008	-	30,274	34,734	14,959
Total payables	<u>7,842,153</u>	<u>-</u>	<u>356,817</u>	<u>7,485,336</u>	<u>357,042</u>
Other liabilities:					
Accrued compensated absences	2,160,216	1,511,398	1,417,847	2,253,767	1,417,847
Perkins federal capital contributions	1,527,970	-	18,668	1,509,302	-
Unearned housing rentals	2,285,693	-	108,412	2,177,281	108,412
Total other liabilities	<u>5,973,879</u>	<u>1,511,398</u>	<u>1,544,927</u>	<u>5,940,350</u>	<u>1,526,259</u>
Total long-term liabilities	<u>\$ 13,816,032</u>	<u>\$ 1,511,398</u>	<u>\$ 1,901,744</u>	<u>\$ 13,425,686</u>	<u>\$ 1,883,301</u>



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**NOTE 13 – ENDOWMENTS**

***Donor Restricted Permanent Endowments***

Endowments are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. The University's endowments require that the income be used for specific purposes. These restrictions are discussed in Note 14. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the endowment fund investments. Any net appreciation is required to be spent for the purposes for which the endowment was established.

**NOTE 14 – COMPONENT UNITS**

***The Francis Marion University Education Foundation***

As discussed in Note 1, the Education Foundation is a legally separate, tax-exempt corporation organized to supplement the resources that are available to the University in support of its programs.

Various financial activities occurred between the University and the Education Foundation. A summary of transactions and/or balances at June 30, 2014, and for the year then ended follows.

- 
- |    |  |            |
|----|--|------------|
| a) | Scholarships awarded by the University and funded by the Education Foundation. (Includes \$3,139 owed to the University at June 30, 2014, and included in amount due from the Education Foundation.) The University recorded these amounts as gift revenue and either tuition discounts or scholarship expense.  | \$ 950,214 |
| b) | Awards for lectures, grants, special programs, and certain other expenses paid by the University and funded by the Education Foundation. (Includes \$22,515 owed to the University at June 30, 2014, and included in amount due from the Education Foundation.) The University recorded these awards as gift revenue and the applicable operating expense. | \$ 200,033 |
| c) | Personal service payments to professors holding endowed chairs made by the University and funded by the Education Foundation. The University recorded these amounts as gift revenue and salary expense.  | \$ 103,958 |
| d) | Reimbursements for University employee time and other costs paid by the University on behalf of the Education Foundation and reimbursed by the Education Foundation. The University recorded these reimbursements as reductions of the applicable operating expenses.  | \$ 65,936  |
| e) | Group life insurance premium payments made by the University and funded by the Education Foundation. The University recorded these amounts as gift revenue and benefits expense.   | \$ 5,273   |
| f) | Payments by the Education Foundation for the benefit of the University and its staff included \$31,439 for club memberships, \$4,214 for furniture and appliances, \$61,410 for other goods and services, \$69,899 for special events and \$22,862 for travel. The University recorded these gifts in applicable operating expenses.                       |            |
| g) | The Education Foundation owes the University \$7,142 for revenue and taxes collected for the faculty-alumni facility which is included in due from Education Foundation.   |            |

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- h) The Education Foundation rented the Performing Arts Center for various events. At June 30, 2014 the Education Foundation owed the University \$19,486 in rental fees and the University owed the Education Foundation \$30,412 in collected ticket sales.
- i) The University continued a loan agreement with the Education Foundation in which the University lent the Education Foundation \$200,000 (all of its endowment assets). The Education Foundation agrees to make payments to the University on behalf of the recipients of the two Palmetto Professorships. This award will be made only when the chairs are actually occupied, and any earnings above the established level shall be returned to the principal and accrue accordingly. For fiscal year 2014, the endowment earned \$27,564 which was applied to principal. As of June 30, 2014, the outstanding principal balance is \$233,970. Lending of the University's endowment resources to the Education Foundation is in accordance with Section 59-101-410 of the South Carolina Code of Laws which authorizes the governing boards of state-supported universities to lend their endowment and auxiliary enterprise monies on deposit with the State Treasurer's Office to separately chartered not-for-profit legal entities whose purpose is primarily providing financial assistance and other support to the institution and its educational program.
- j) The Education Foundation owes \$618 for reimbursement of various expenses paid by the University.
- k) The University has lease agreements with the Education Foundation of \$24,995 for rental of office space. The University provided janitorial services, refuse disposal, and ground maintenance.

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Cash and Cash Equivalents, Deposits, and Investments

Cash and cash equivalents of the Education Foundation include interest bearing money market accounts and short-term investments with an original maturity of three months or less. The Education Foundation maintains its cash balances in various financial institutions. As of December 31, 2013, there were uninsured amounts at the institutions of \$935,444.

A summary of investments as of December 31, 2013, follows:

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Mutual funds	\$ 3,639,640
Equity securities	13,666,674
Corporate bonds	4,458,330
Limited partnerships	349,132
Governmental securities	3,464
Total	<u>\$ 22,117,240</u>

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Financial instruments which potentially subject the Education Foundation to concentration of credit risk consist principally of investments in various debt securities. The exposure to concentrations of credit risk relative to investments is limited due to the Education Foundation's investment objectives and policies, as adopted by its Board of Directors.

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Contributions Receivable

Contributions receivable of the Education Foundation, which consist of unconditional promises to give adjusted for a discount commensurate with the risk

involved in the delay of collection and an allowance for uncollectible receivables, as of December 31, 2013, are summarized as follows:

---

Unconditional promises expected to be collected in:	
Less than one year	\$1,490,122
One year to five years	<u>1,081,250</u>
	2,571,372
Less discounts to net present value	157,725
Less allowance for uncollectible contributions	<u>30,000</u>
Net contributions receivable	<u><u>\$2,383,647</u></u>

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The allowance is determined based upon management's judgment considering past history of write-offs. The discount for present value was the effective earnings rate of 4.5%.

Assets Held in Trust by Others

The Education Foundation has a 30% interest in a permanent trust created by an estate. The ownership in this trust was valued for \$827,008 at December 31, 2013.

Property and Equipment

Property and equipment of the Education Foundation as of December 31, 2013, consists of the following:

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Land	\$ 120,900
Building	1,109,008
Furniture and equipment	<u>67,033</u>
	1,296,941
Less accumulated depreciation	<u>242,433</u>
Property and equipment, net	<u><u>\$ 1,054,508</u></u>

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Depreciation Expense of \$28,937 was recognized for the period ended December 31, 2013.

Other Assets

Included in other assets is the Education Foundation's ownership in various parcels of real

estate that are held with the intent to sell and reported at carrying value of \$1,149,596 as of December 31, 2013. In addition, the Education Foundation has ownership in the cash surrender value of various life insurance policies at \$1,291 as of December 31, 2013.

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Konduras Fisherman Donor Advised Fund

During the year-ended June 30, 2010, the Education Foundation entered into a donor-directed agreement. Under this agreement, the donor provided \$100,000 to establish an endowment fund. Also, the donor gifted an additional \$2 million to establish the Konduras Fisherman Donor Advised Fund, (the Fund). All earnings and any additional contributions will be added to the Fund and shall be used at the discretion of the Konduras Fisherman Fund Advisory Committee (the Committee) within the confines of the Education Foundation's articles of incorporation, by-laws, and relevant laws, including the Internal Revenue Code. These gifts are irrevocable; however the agreement includes a clause which states that the

Committee or the Education Foundation each at their own discretion may at any time with 30 days written notice direct that the unendowed assets of the fund be transferred to another 501c(3) organization. Although the Education Foundation has not been notified of the specific organization that the Committee wishes to transfer the funds to, it has established a liability at December 31, 2013 to reflect the balance to be transferred as Funds Held for Others.

Debt

The Education Foundation has entered into debt agreements for which outstanding balances as of December 31, 2013, are as follows:

Note with the University requiring interest at the earnings rate of the Education Foundation's Investment Pools. Interest is accrued to principal annually. Principal is due on demand.

\$ 229,717

JEDA Bonds outstanding which initially required quarterly interest at the Prime Rate plus 2 percent through August 2008. After August 2008, the Education Foundation is required to make monthly installments of principal and interest at the rate of 5.70% with the remaining principal due on demand at the August 1, 2022 maturity date.

979,592

\$ 1,209,309

The minimum principal maturities of the debt outstanding are as follows:

Year Ending December 31,		
2014	\$	309,016
2015		83,916
2016		88,664
2017		93,966
2018		99,437
Thereafter		534,310
	\$	<u>1,209,309</u>

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Leases as Lessor

The Education Foundation entered into leases of space within its office building for a twelve month period ending December 31, 2013. The leases allow automatic renewal unless notification is provided by the tenant. The largest tenant of the building is the University. The Education Foundation recognized \$49,995 in rent revenue from these lease obligations of which \$29,995 was from the University.

***The Francis Marion University Development Foundation***

As discussed in Note 1, The Development Foundation is operated for the benefit of the University to acquire and operate housing facilities and other real property. The FMU Student Housing, LLC (LLC), a single member limited liability company owned by the Development Foundation, leases all the University's on-campus housing, composed of fourteen apartment style facilities and six dormitory style facilities having an aggregate of 1,112 beds and 8.96 acres of land for their 427 bed apartment complex. The lease agreement provides for the

University to be paid any net available cash flow from the operation less any amount agreed upon by the University and the LLC. The determination of net available cash flow requires the LLC's annual audit to be completed with financial statements indicating a debt service coverage ratio of at least 1.25 and that all expenses, debt service, and deposits to the repair and replacement fund have occurred in accordance with bond documents. Rental income from housing operations for fiscal year 2014 is \$108,412, a portion of the advanced rent paid by the Development Foundation in 2004, and an additional rental payment of \$268,802 from available net cash flow. The Development Foundation records the prepayment as prepaid rent and the University records the advance as deferred housing revenue. These amounts are amortized over the life of the Development Foundation's 2004A bond issue.

A summary of other financial activities that occurred between the University and the Development Foundation for the year ended June 30, 2014 follows:

- 
- a) The University collects as part of its student fee collection process student housing deposits, fees, and fines. All collections, excluding housing deposits, are remitted to the LLC. Collections due to the LLC at June 30, 2014, are \$212,961 and are included in due to Francis Marion University Development Foundation.
  - b) The University provides the LLC management services related to the student housing facilities. This agreement continues for successive one year terms unless either the LLC or the University elects to terminate in writing. The negotiated fee is currently \$135,000. Under this agreement, the University pays for expenses related to the housing operation and summer repairs and is reimbursed by the LLC. The LLC pays the reimbursement in advance and at June 30, 2014 the unspent portion of \$495,758 was recorded as deposits held for Francis Marion University Development Foundation.
  - c) Reimbursements for University employee time paid by the University on behalf of the Development Foundation were \$43,954. The University recorded these reimbursements as reductions of the applicable operating expenses.
  - d) The Development Foundation paid \$279,597 for various items and contractual services on behalf of the University. The University recorded these gifts as \$48,751 in capital assets and \$230,846 in applicable operating expenses. The Development Foundation also made a cash donation to the University of \$150,000 for academic support
- 

Cash and Cash Equivalents

The Development Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Development Foundation maintains several bank accounts at two financial institutions. As of June 30, 2014, there were uninsured amounts at the institutions of \$4,428,598.

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Property and Equipment

Property and equipment of the Development Foundation as of June 30, 2014, consists of the following:

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Land	\$ 232,021
Building	17,542,155
Signs	20,000
Furniture and equipment	391,915
Leasehold improvements	572,315
	<u>18,758,406</u>
Less accumulated depreciation	<u>4,026,163</u>
Property and equipment, net	<u><u>\$ 14,732,243</u></u>

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Depreciation expense for the year ended June 30, 2014, was \$494,843.

Bonds Payable

Pursuant to a loan agreement between the South Carolina Jobs – Economic Development Authority and the LLC, the Development Authority issued \$15,665,000 of Series A and \$335,000 of Series B bonds. The bonds were loaned to the LLC for purposes of acquiring a leasehold interest from the University in existing student housing, to provide funds for the acquisition, construction and furnishing of a 237 bed student housing facility, to fund interest on the Series A and B bonds during the construction

period, to fund the costs of marketing the housing facilities, to provide working capital for the facilities, to fund the Series A Debt Service Reserve Fund and to pay the costs of issuance of the Series A and B bonds.

On December 1, 2006, the loan agreement was amended to include the issuance of an additional \$10,465,000 of Series A bonds and \$280,000 of additional Series B bonds.

A summary of bonds payable as of June 30, 2014 are as follows:

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<u>Series</u>	<u>Original Face Amount</u>	<u>Interest Rates</u>	<u>Final Maturity Dates</u>	<u>Unpaid Principal Balance</u>
2004A	15,665,000	3.6 - 5.75 %	8/1/2034	13,545,000
2006A	10,465,000	3.5 - 4.375 %	8/1/2037	9,640,000

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The Series 2004A bonds maturing on or after August 1, 2015 are redeemable at the option of the LLC on or after August 1, 2014 in whole or in part at a redemption price equal to 100% of principal amount thereof plus accrued interest. Interest payments on all bonds are due semiannually.

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Final maturities of bonds payable are as follows:

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Year Ending June 30,	Series 2004A	Series 2006A
2015	\$ 380,000	\$ 240,000
2016	395,000	250,000
2017	410,000	260,000
2018	430,000	270,000
2019	455,000	285,000
2020-2024	2,665,000	1,595,000
2025-2029	3,460,000	1,965,000
2030-2034	4,355,000	2,425,000
2035-2038	995,000	2,350,000
	\$ 13,545,000	\$ 9,640,000

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Total interest expense during the year ended June 30, 2014, was \$1,057,131.

The Development Foundation has no obligation under this loan agreement.

## NOTE 15 – RISK MANAGEMENT

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several state funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits

Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts

- Business interruptions
- Natural disasters
- Medical malpractice claims against covered employees

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 16 – EXPENSES BY FUNCTION**

Operating expenses by functional classification for the year ended June 30, 2014, are summarized as follows

	Salaries and Wages	Benefits	Supplies and other Services	Utilities	Scholarships	Depreciation	Total
Instruction	\$ 16,713,068	\$ 5,229,026	\$ 1,166,694	\$ 27,005	\$ -	\$ -	\$ 23,135,793
Research	140,315	38,063	80,870	-	-	-	259,248
Public service	1,072,964	300,937	724,664	5,462	-	-	2,104,027
Academic support	2,118,647	684,626	2,215,853	6,031	-	-	5,025,157
Student services	2,890,255	878,623	1,621,150	21,614	-	-	5,411,642
Institutional support	3,739,995	1,232,537	703,488	55,214	-	-	5,731,234
Operation and maintenance of plant	3,487,665	1,323,239	3,267,283	2,149,688	-	-	10,227,875
Depreciation	-	-	-	-	-	3,427,130	3,427,130
Scholarships	-	-	-	-	5,121,735	-	5,121,735
Auxiliary Enterprises	2,592	(447)	149,467	36,281	-	-	187,893
Total operating expenses	<u>\$ 30,165,501</u>	<u>\$ 9,686,604</u>	<u>\$ 9,929,469</u>	<u>\$ 2,301,295</u>	<u>\$ 5,121,735</u>	<u>\$ 3,427,130</u>	<u>\$ 60,631,734</u>

**NOTE 17 – STATE APPROPRIATIONS**

The following are the appropriations as enacted by the General Assembly and reported in the financial statements for the fiscal year ended June 30, 2014:

**NON-CAPITAL APPROPRIATIONS**

Current year's appropriations:

Original appropriations per Annual Appropriations Act \$ 11,407,813

Supplemental Appropriations

Pay Plan Reimbursement

Health and Dental Insurance 151,386

Industrial Engineering Program 400,000

From Commission on Higher Education:

Academic Incentive Endowment Match 4,509

SCDE-Education Improvement Act 350,000

SC Education Lottery - Technology Program 407,279

Total non-capital appropriations recorded as current year revenue \$ 12,720,987

**CAPITAL APPROPRIATIONS**

Current year's capital appropriations

SC Education Lottery - Health Sciences Building 3,250,000

SC Education Lottery - Deferred Maintenance 494,624

Total capital appropriations recorded as current year revenue \$ 3,744,624



**FRANCIS MARION UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 18 – NONOPERATING FEDERAL GRANTS**

Nonoperating Federal grants for the year ended June 30, 2014, are summarized as follows:

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Federal Pell Grant Program - 2013	\$ 11,156
Federal Pell Grant Program - 2014	<u>9,670,709</u>
Total	<u><u>\$ 9,681,865</u></u>

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**NOTE 19 – STATEMENT OF ACTIVITIES**

The following information is provided for incorporation in the State of Carolina Comprehensive Annual Financial Report:

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	Year ended June 30,	
	<u>2014</u>	<u>2013</u>
Charges for services	\$ 30,997,095	\$ 31,064,201
Operating grants and contributions	13,067,910	12,826,881
Capital grants and contributions	7,382,099	130,989
Less: expenses	<u>(61,022,793)</u>	<u>(60,808,742)</u>
Net program revenues (expenses)	<u>(9,575,689)</u>	<u>(16,786,671)</u>
Transfers:		
State appropriations	12,720,987	12,161,995
State capital appropriations	<u>3,744,624</u>	<u>1,743,547</u>
Total transfers	<u>16,465,611</u>	<u>13,905,542</u>
Changes in net assets	6,889,922	(2,881,129)
Net assets - beginning	<u>72,030,786</u>	<u>74,911,915</u>
Net assets - ending	<u><u>\$ 78,920,708</u></u>	<u><u>\$ 72,030,786</u></u>

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Independent Auditors' Report On Compliance  
For Each Major Program And On Internal Control Over  
Compliance Required by OMB Circular A-133

To the Honorable Nikki R. Haley,  
Governor of the State of South Carolina  
And to the Board of Trustees of  
Francis Marion University  
Florence, South Carolina

**Report on Compliance for Each Major Federal Program**

We have audited Francis Marion University's compliance with the types of compliance requirements described in the *(OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Francis Marion University's major federal programs for the year ended June 30, 2014. Francis Marion University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Francis Marion University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Francis Marion University's compliance.

**Opinion on Each Major Federal Program**

In our opinion Francis Marion University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2014.

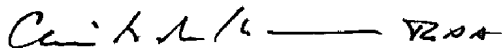
## Report on Internal Control Over Compliance

Management of Francis Marion University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirement referred to above. In planning and performing our audit, we considered Francis Marion University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Francis Marion University's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Gaffney, SC  
September 12, 2014

Independent Auditors' Report On Internal Control Over  
Financial Reporting And On Compliance And Other Matters  
Based On An Audit Of Financial Statements Performed  
In Accordance With Government Auditing Standards

To the Honorable Nikki R. Haley,  
Governor of the State of South Carolina  
And to the Board of Trustees of  
Francis Marion University  
Florence, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit (Francis Marion University Development Foundation) of Francis Marion University, a discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprised Francis Marion University's basic financial statements, and have issued our report thereon dated September 12, 2014. Our report includes a reference to other auditors who audited the financial statements of Francis Marion University Education Foundation, as described in our report on Francis Marion University's financial statements. The Francis Marion University Education Foundation's financial statements were not audited in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The Francis Marion University Development Foundation's financial statements were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Francis Marion University Development Foundation.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Francis Marion University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Francis Marion University's internal control. Accordingly, we do not express an opinion on the effectiveness of the Francis Marion University's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit by those charged with governance.

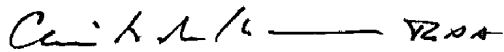
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Francis Marion University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Gaffney, SC  
September 12, 2014

**FRANCIS MARION UNIVERSITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE PERIOD ENDED JUNE 30, 2014**

Federal Grantor/Program Title	Federal CFDA Number	Grant/Contract Number	Total Expenditures	
Direct Programs:				
U.S. Department of Education				
Federal Supplemental Educational Opportunity Grant	84.007	P007A133784	\$ 112,284	
Federal Direct Student Loans - 2013	84.268	P268K133163	674,107	
Federal Direct Student Loans - 2014	84.268	P268K143163	26,209,564	
Federal Work-Study Program - 2014	84.033	P033A133784	126,533	
Federal Perkins Loan Program - Federal Capital Contributions	84.038	PO38A053784	1,938,615	
Federal Pell Grant Program - 2013	84.063	P063P123163	11,156	
Federal Pell Grant Program - 2014	84.063	P063P133163	9,670,709	
U.S. Department of Education				
Higher Education-Institutional Aid	84.031P	P031P110031-12	66,174	
Higher Education-Institutional Aid	84.031P	P031P110031-13	106,706	
U.S. Nuclear Regulatory Commission				
Scholarship and Fellowship Program	77.008	NRC-HQ-12-G-38-0005	54,925	
Total Direct Programs			38,970,773	
Indirect Programs:				
National Aeronautics and Space Administration				
Passed through the College of Charleston				
Space Grant Management Award	0.000	NNG05G168G	1,614	
Department of Defense - U.S. Army Medical Command				
Passed through Wayne State University				
Military Medical Research and Development	R&D	12.420	W81XWH-11-1-0726	16,268
National Endowment for the Humanities				
Passed through The Humanities Council				
Promotion of the Humanities-Fed/State Partnership	45.129	13-1511-1	5,068	
National Science Foundation				
Passed through the Mathematical Association of America				
Mathematical and Physical Sciences	47.049	DMS-0846477	522	
Passed through The University of South Carolina				
Program to Stimulate Competitive Research	R&D	47.081	14-2439	1,998
Passed through The University of South Carolina				
Program to Stimulate Competitive Research	R&D	47.081	13-2416	85,266
Passed through The University of South Carolina				
Program to Stimulate Competitive Research	R&D	47.081	13-2396	11,521

See Notes to Schedule of Expenditures of Federal Awards.

**FRANCIS MARION UNIVERSITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE PERIOD ENDED JUNE 30, 2014**

Federal Grantor/Program Title	Federal CFDA Number	Grant/Contract Number	Total Expenditures	
U.S. Department of Education				
Passed Through South Carolina Commission on Higher Education Gaining Early Awareness & Readiness for Undergrad. Programs	84.334S	P334S110019	135,072	
Passed Through South Carolina Department of Education State Personnel Development	84.323A	14CQ304-01	74,351	
Passed Through South Carolina Department of Education Mathematics and Science Partnerships	84.366B	13MS304	9,844	
Passed Through South Carolina Department of Education Improving Teacher Quality State Grants	84.367	13TQ304-03	18,253	
Passed Through South Carolina Department of Education Grants to States	84.027	14CO304-01	151,398	
Passed Through National Writing Project Corp. Supporting Effective Educator Development Grant	84.367D	00-SC10-SEED2012	578	
Passed Through National Writing Project Corp. Improving Teacher Quality State Grants	84.367D	00-SC10-SEED2012	7,775	
Passed Through National Writing Project Corp. National Writing Project	84.928A	00-SC10 Amdt. No. 13	140	
National Center for Research Resources (NCRR)/NIH				
Passed through the South Carolina Research Foundation and USC National Center for Research Resources	R&D	93.389	7P20GM103499-13	255,398
Department of Health and Human Services				
Passed through Washington University Aging Research	R&D	93.866	WU-13-110-MOD-1	15,798
Passed through SC DHHS Purchase and Provision of Medical Assistance		99.999		173,915
Total Indirect Programs			964,779	
Total Federal Assistance			\$ 39,935,552	

See Notes to Schedule of Expenditures of Federal Awards.

**FRANCIS MARION UNIVERSITY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2014**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Francis Marion University and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A – 133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR FEDERAL AWARD EXPENDITURES**

Expenditures for student financial aid programs include the federal share of students' Federal Supplemental Educational Opportunity Grant (FSEOG) program grants and Federal Work Study (FWS) program earnings, certain other federal financial aid for students and administrative cost allowances, where applicable.

**NOTE 3 – LOAN PROGRAMS**

The Direct Loan program provides loans to students and their parents. The loans are made directly from the federal government; therefore there is no loan balance recorded at the University. The totals of loans processed for the current fiscal year are:

	2013	2014
Direct Student Loan - Subsidized	\$ 173,861	\$ 9,530,152
Direct Student Loan - Unsubsidized	431,178	14,533,734
PLUS	<u>69,068</u>	<u>2,145,678</u>
Total	<u><u>\$ 674,107</u></u>	<u><u>\$ 26,209,564</u></u>

The Federal Perkins Loan Program is administered directly by the University and balances and transactions relating to the program are included in the University's financial statements. The balance of loans outstanding under the Federal Perkins Loan program was \$1,938,615 as of June 30, 2014. The expenditures for June 30, 2014 are calculated as follows:

June 30, 2014 loan balance	\$ 1,667,690
Current year loans made	<u>270,925</u>
Total	<u><u>\$ 1,938,615</u></u>



**FRANCIS MARION UNIVERSITY**  
Summary Schedule Of Prior Audit Findings  
June 30, 2014

**Findings Relating to the Financial Statements:**

There were no findings relating to the financial statements.

**Findings and Questioned Costs Relating to Federal Awards:**

There were no findings and questioned costs relating to federal awards.

**FRANCIS MARION UNIVERSITY**  
Schedule of Findings and Questioned Costs  
June 30, 2014

**Summary of Auditor's Results:**

- An unmodified opinion was issued on Francis Marion University's basic financial statements dated September 12, 2014.
- There were no material weaknesses or significant deficiencies relating to the financial statements reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements performed in accordance with *Government Auditing Standards*.
- There were no instances of noncompliance material to the financial statements of Francis Marion University disclosed during the audit.
- The auditors' report on compliance for the major federal award programs for Francis Marion University expresses an unmodified opinion
- There were no material weaknesses or significant deficiencies relating to the audit of major federal awards reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.
- There were no audit findings reported relative to the major federal award programs for Francis Marion University as depicted below in this schedule.
- Major federal programs:

Student Financial Aid Cluster

Federal Supplemental Education Opportunity Grants	CFDA #84.007
Federal Work-Study Programs	CFDA #84.033
Federal Perkins Loans	CFDA #84.038
Federal PELL Grant Program	CFDA #84.063
Federal Direct Loan Program	CFDA #84.268

Research and Development

Military Medical Research and Development	CFDA #12.420
NSF- Program to Stimulate Competitive Research	CFDA #47.081
National Center for Research Resources	CFDA #93.389

- Type A programs are defined as those that expended \$300,000 or more and Type B programs are those that expended less than \$300,000.
- Francis Marion University is a low-risk auditee according to the criteria in OMB Circular A-133.

**Findings Relating to the Financial Statements:**

There were no findings relating to the financial statements.

**Findings and Questioned Costs Relating to Federal Awards:**

There were no findings and questioned costs relating to federal awards.